

ABC UNIFIED SCHOOL DISTRICT

Audit Report

COLLECTIVE BARGAINING PROGRAM

Chapter 961, Statutes of 1975,
and Chapter 1213, Statutes of 1991

July 1, 2001, through June 30, 2004



JOHN CHIANG
California State Controller

July 2007



JOHN CHIANG
California State Controller

July 5, 2007

Gary Smuts, Ed.D., Superintendent
ABC Unified School District
16700 Norwalk Boulevard
Cerritos, CA 90703

Dear Dr. Smuts:

The State Controller's Office audited the costs claimed by ABC Unified School District for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2001, through June 30, 2004.

The district claimed and was paid \$420,205 (\$421,205 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$203,450 is allowable and \$216,755 is unallowable. The unallowable costs occurred primarily because the district did not provide documentation to substantiate claimed costs. The State will offset \$216,755 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at CSM's Web site, at www.csm.ca.gov (Guidebook link); you may obtain IRC forms by telephone, at (916) 323-3562, or by e-mail, at csminfo@csm.ca.gov.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm

cc: Toan Nguyen, Chief Financial Officer
ABC Unified School District
Darline P. Robles, Ph.D, County Superintendent of Schools
Los Angeles County Office of Education
Scott Hannan, Director
School Fiscal Services Division
California Department of Education
Arlene Matsuura, Education Fiscal Services Consultant
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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by ABC Unified School District for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2001, through June 30, 2004. The last day of fieldwork was February 28, 2007.

The district claimed and was paid \$420,205 (\$421,205 less a \$1,000 penalty for filing a late claim) for the mandated program. Our audit disclosed that \$203,450 is allowable and \$216,755 is unallowable. The unallowable costs occurred primarily because the district did not provide documentation to substantiate claimed costs. The State will offset \$216,755 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

Background

In 1975, the State enacted the Rodda Act (Chapter 961, Statutes of 1975), requiring the employer and employee to meet and negotiate, thereby creating a collective bargaining atmosphere for public school employers. The legislation created the Public Employment Relations Board to issue formal interpretations and rulings regarding collective bargaining under the Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives relating to collective bargaining.

On July 17, 1978, the Board of Control (now the Commission on State Mandates [CSM]) determined that the Rodda Act imposed a state mandate upon school districts reimbursable under Government Code section 17561.

Chapter 1213, Statutes of 1991, added Government Code section 3547.5, requiring school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding.

On August 20, 1998, CSM determined that this legislation also imposed a state mandate upon school districts reimbursable under Government Code section 17561. Costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July 1, 1996, are allowable.

Claimants are allowed to claim increased costs. For claim components G1 through G3, increased costs represent the difference between the current-year Rodda Act activities and the base-year Winton Act activities (generally, fiscal year 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

The seven allowable claim components are as follows.

- G1–Determining bargaining units and exclusive representatives
- G2–Election of unit representatives
- G3–Costs of negotiations
- G4–Impasse proceedings
- G5–Collective bargaining agreement disclosure
- G6–Contract administration
- G7–Unfair labor practice costs

Parameters and Guidelines establishes the state mandate and defines reimbursement criteria. CSM adopted the *Parameters and Guidelines* on October 22, 1980, and last amended it on January 27, 2000. In compliance with Government Code Section 17558, the SCO issues claiming instructions for mandated programs, to assist local agencies and school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Collective Bargaining Program for the period of July 1, 2001, through June 30, 2004.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, ABC Unified School District claimed and was paid \$420,205 (\$421,205 less a \$1,000 penalty for filing a late claim) for costs of the Collective Bargaining Program. Our audit disclosed that \$203,450 is allowable and \$216,755 is unallowable. The State will offset \$216,755 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

**Views of
Responsible
Official**

We issued a draft audit report on May 11, 2007. Toan Nguyen, Chief Financial Officer, responded by letter dated June 5, 2007 (Attachment), disagreeing with Findings 1 and 3, and concurring with Finding 2. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of ABC Unified School District, the Los Angeles County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 2001, through June 30, 2004

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2001, through June 30, 2002</u>				
Components G1 through G3:				
Salaries and benefits	\$ 62,703	\$ 52,700	\$ (10,003)	Finding 1
Total increased direct costs, G1 through G3	62,703	52,700	(10,003)	
Components G4 through G7:				
Salaries and benefits	103,367	18,249	(85,118)	Finding 1
Materials and supplies	13,011	151	(12,860)	Finding 2
Contracted services	35,303	23,288	(12,015)	Finding 3
Total increased direct costs, G4 through G7	151,681	41,688	(109,993)	
Total increased direct costs	214,384	94,388	(119,996)	
Indirect costs	15,688	6,228	(9,460)	Findings 1, 2
Total program costs	\$ 230,072	100,616	\$ (129,456)	
Less amount paid by the State		(230,072)		
Allowable costs claimed in excess of (less than) amount paid		\$ (129,456)		
<u>July 1, 2002, through June 30, 2003</u>				
Components G1 through G3:				
Salaries and benefits	\$ 52,918	\$ 41,625	\$ (11,293)	Finding 1
Materials and supplies	25	—	(25)	Finding 2
Contracted services	101	—	(101)	Finding 3
Total increased direct costs, G1 through G3	53,044	41,625	(11,419)	
Components G4 through G7:				
Salaries and benefits	47,307	9,514	(37,793)	Finding 1
Contracted services	9,821	3,375	(6,446)	Finding 3
Total increased direct costs, G4 through G7	57,128	12,889	(44,239)	
	110,172	54,514	(55,658)	
Indirect costs	7,940	4,050	(3,890)	Findings 1, 2
Total program costs	\$ 118,112	58,564	\$ (59,548)	
Less amount paid by the State		(118,112)		
Allowable costs claimed in excess of (less than) amount paid		\$ (59,548)		

Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2003, through June 30, 2004</u>				
Components G1 through G3:				
Salaries and benefits	\$ 43,227	\$ 29,873	\$ (13,354)	Finding 1
Total increased direct costs, G1 through G3	43,227	29,873	(13,354)	
Components G4 through G7:				
Salaries and benefits	10,046	4,313	(5,733)	Finding 1
Contracted services	16,232	7,828	(8,404)	Finding 3
Total increased direct costs, G4 through G7	26,278	12,141	(14,137)	
Total increased direct costs	69,505	42,014	(27,491)	
Indirect costs	3,516	2,256	(1,260)	Findings 1, 2
Total direct and indirect costs	73,021	44,270	(28,751)	
Less late penalty	(1,000)	(1,000)	—	
Total program costs	\$ 72,021	43,270	\$ (28,751)	
Less amount paid by the State		(72,021)		
Allowable costs claimed in excess of (less than) amount paid		\$ (28,751)		
<u>Summary: July 1, 2001, through June 30, 2004</u>				
Total increased direct costs	\$ 394,061	\$ 190,916	\$ (203,145)	
Indirect costs	27,144	12,534	(14,610)	
Total program costs	\$ 421,205	203,450	\$ (217,755)	
Less amount paid by the State		(420,205)		
Allowable costs claimed in excess of (less than) amount paid		\$ (216,755)		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unsupported salaries and benefits

The district did not provide documentation to substantiate a significant portion of claimed salaries and benefits totaling \$163,294 for the audit period.. The related indirect costs total \$13,480.

G3—Cost of Negotiations

The district claimed \$34,650 in unsupported salaries and benefits costs for negotiations (G3). Of that amount, \$25,755 relates to claimed costs that were not supported by time records less unclaimed negotiation planning session costs, \$3,443 relates to overtime costs claimed for employees who did not earn overtime pay, and \$5,452 relates to incorrect productive hourly rate calculation.

The district supported claimed negotiations hours with meeting sign-in sheets, negotiation notes that indicated time and dates, and appointment calendars. The dates and hours on these three documents did not agree. We allowed the reimbursable hours reported on the sign-in sheets. The Chief Financial Officer, Toan Nguyen, requested that the auditors use sign-in sheets as he believed they were the most reliable.

For fiscal year (FY) 2001-02, 121 hours were not reimbursable. Claimed negotiation hours were overstated for six employees and understated for eight employees. Two of the fourteen claimed employees were not employer representatives, and therefore, the related hours claimed were ineligible. For FY 2002-03, seven hours were not reimbursable. Claimed negotiation hours were overstated for five employees and understated for eight employees. For FY 2003-04, 185 hours were not reimbursable. Claimed negotiation hours were overstated for seven employees.

The district did not claim any negotiation planning session hours; however, based on sign in sheets and calendars presented, 35 hours for FY 2001-02, 22 hours for FY 2002-03, and 24 hours for FY 2003-04 were reimbursable.

The district did not provide any documentation supporting that claimed employees received additional compensation or compensatory time off for working more than eight hours a day. The district provided no evidence that it had a written policy that permitted compensatory time off for employees. Consequently, 49 hours for FY 2001-02 and 3 hours for FY 2002-03 were not reimbursable.

The district did not support the 25% benefit rate it used in calculating its productive hourly rate. In the absence of supporting the benefit rate, *Parameters and Guidelines* allows a default rate of 21%.

G4—Impasse Proceedings

The district claimed \$513 in unsupported salaries and benefits costs for Impasse Proceeding (G4) for FY 2002-03. The hours claimed were derived from a consultant-prepared worksheet. The underlying time records did not support the hours claimed.

G5—Collective Bargaining Agreement Disclosure

The district claimed \$7,267 in unsupported salaries and benefits for Collective Bargaining Disclosure (G5) for FY 2001-02. The unallowable costs consisted of 115 hours (45 hours claimed each for Toan Nguyen and an unnamed Director of Fiscal Services, and 25 hours for Dana Kaufman, Internal Auditor). The district did not provide documentation supporting the hours claimed. At an audit update meeting held on September 22, 2005, both Toan Nguyen and Dana Kaufman stated that the 115 hours were unsupported, and therefore, should not be reimbursed. Mr. Nguyen also concurred at a June 7, 2006, status meeting.

G6—Contract Administration

The district claimed \$110,140 (\$67,640 for FY 2001-02, \$36,767 for FY 2002-03, and \$5,733 for FY 2003-04) in unsupported salaries and benefits for Contract Administration (G6). The costs were unsupported because the district used pre-printed administrative time logs with annual estimated hours developed at fiscal year-end, claimed unsupported hours identified on the consultant's worksheets, and claimed unsupported training hours.

The unsupported pre-printed administrative time logs with estimated hours developed at fiscal year-end totaled \$48,878 (\$18,567 for FY 2001-02, \$22,402 for FY 2002-03, and \$7,909 for FY 2003-04). These logs were certifications with preprinted totals that were signed, but not dated. The unsupported costs totaled 284 hours for FY 2002-03, 292.25 hours for FY 2002-03, and 112 hours for FY 2003-04. We discussed the estimated hours with the district on September 22, 2005, and requested the district to validate these hours to source documents identifying actual hours incurred. The district provided no other documentation in support of the preprinted totals.

The district overstated costs identified on the consultant's worksheets by \$29,591. The district claimed unsupported costs totaling \$26,234 (376.25 hours) for FY 2001-02 and \$4,020 (17.5 hours) for FY 2002-03, and did not claim \$663 (7.75 hours) for FY 2003-04. The costs are not reimbursable because (1) they consisted of duplicated hours drawn from the negotiation sessions; (2) they were for non-reimbursable activities; or (3) the log did not specify the activity performed and no supporting documentation was provided.

The district overstated training costs by \$31,671. The district claimed unsupported training costs totaling \$22,839 (381 hours) for FY 2001-02 and \$10,345 (135.5 hours) for FY 2002-03, and did not claim \$1,513 (25 hours) for FY 2003-04. The unsupported hours follows.

- For FY 2001-02, the district claimed a Partnership: Administration/Labor (PAL) training on October 31, 2001, provided by the Human Resource Director, Kay Jones. She stated that only ½ hour was devoted to collective bargaining. We allowed the ½ hour training for attendees listed on the sign-in sheet.

- For FY 2002-03 a district claimed a 2-1/2 hours collective bargaining training session held on October 22, 2002. We allowed 2-1/2 hours for each employee that signed the sign-in sheet. We did not allow two claimed individuals who were not listed on the sign-in sheet and a teacher. We also did not allow four hours claimed by 29 principals and 15 assistant principals, since the district did not provide any source documents to validate the hours claimed or the nature of the training.
- For FY 2003-04 the district claimed no training; however, the district's records showed an October 13, 2003, training for contract administration lasting 2.5 hours. We allowed a total of 25 hours for the ten administrators who signed the sign-in sheet. We did not allow hours for the ten teachers that received the training during their workday; hence, the hours were not reimbursable.

G7—Unfair Labor Practice Charges

The district claimed \$10,724 (\$10,211 for FY 2001-02 and \$513 for FY 2002-03) in supported salaries and benefits costs for unfair labor practice charges. The unsupported costs consisted of time spent by the Human Relations Director, totaling 155 hours (149 hours for FY 2001-02 and 6 hours for FY 2003-04) derived from a consultant-prepared worksheet that were not traceable to source documents. The district provided time logs to support claimed costs; however, the time logs did not identify the reimbursable activity. The Human Resource Director stated that the consultant arbitrarily assigned the reimbursable activity to the worksheet without consulting her.

The following table shows the unallowable salaries and benefits, and related indirect costs.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Salaries and benefits:				
Components G1 through G3	\$ (10,003)	\$ (11,293)	\$ (13,354)	\$ (34,650)
Components G4 through G7	(85,118)	(37,793)	(5,733)	(128,644)
Total salaries and benefits	(95,121)	(49,086)	(19,087)	(163,294)
Related indirect costs	(8,333)	(3,888)	(1,260)	(13,480)
Audit adjustment	<u>\$ (103,454)</u>	<u>\$ (52,974)</u>	<u>\$ (20,347)</u>	<u>\$ (176,774)</u>

Parameters and Guidelines, Section H, states that the claimant must support the level of costs claimed and that the claimant will only be reimbursed for the “increased costs” incurred.

Recommendation

We recommend that the district ensure that all claimed costs are supported by source documents prepared contemporaneously. Source documents should identify the mandated functions performed and support the actual number of hours devoted to each function.

District's Response

The audit disallowed \$176,774 under this finding due to the fact that the District did not provide documentation to substantiate a significant portion of the claimed salaries and benefits and the related indirect costs, as outlined below:

G3 – Cost of Negotiations (\$34,650 disallowed)

a. The State's draft audit report indicated that \$25,755 of the unallowable cost is related to claimed costs that were not supported by time records. However, I have provided the auditor with time records for everyone that was claimed under this mandate. Therefore, I am requesting the State to provide the names of the employees and the fiscal year(s) that were claimed without time records.

b. The State's draft audit report disallowed \$3,443 related to overtime costs claimed for employees who did not earn overtime pay. While the District does not pay overtime for certain employee classifications, namely management, it often allows compensatory time in lieu of overtime. Therefore, it is still a cost of carrying out the mandated activities, and thus, is legally reimbursable. I am requesting that the State provides me with the parameters and guidelines that disallowed this claim.

G5 – Collective Bargaining Agreement Disclosure (\$7,267 disallowed)

The State's draft audit report indicated that \$7,267 of the unallowable cost was not support by time records. Again, I have provided the auditor with time records for everyone that was claimed under this mandate. Therefore, I request that the State provides me with the names of the employees and the fiscal year(s) that costs were claimed without time records.

G6 – Contract Administration (\$110,140 disallowed)

The State's draft audit report indicated that \$48,878 of costs were unsupported because the District used a preprinted time log. These preprinted time logs were used from the original documents provided by the District's 29 principals. These preprinted time logs contain original signatures from the principals, certifying under perjury, that they indeed spent the time under the claimed activities. I strongly urge you to reexamine this finding with your auditor. This is an unreasonable application of the audit standards. The parameters and guidelines do not indicated that pre-printed time logs are not allowed.

The State's draft audit report disallowed \$30,254 relating to the fact that the time logs did not contain specific reimbursable activities performed. However, the reimbursable activities were noted on a separate worksheet. The parameters and guidelines do not indicate that the reimbursable activities must be on the same page as the time log. The field auditor acknowledged that the principals did perform the mandated activities, however, the costs were disallowed due to the improper interpretation of the parameters and guidelines.

The State's draft audit report disallowed \$31,008 on supported training hours. The District provides training on the Collective Bargaining Contract and all certificated management are required to attend. However, the costs were disallowed to the fact that there was not agenda. The report further claimed that the time costs claimed were based on unsupported average/standard time. However, the District followed the same standards in calculating the productive hourly rate.

G7 – Unfair Labor Practice Charges (\$10,211 disallowed)

The draft audit report disallowed \$10,724 for unfair labor practice charges due to the fact that the claims were filed using the consultant prepared worksheet. Again, the parameters and guidelines do not indicate that the District cannot use a consultant prepared worksheets. Most districts in the State utilize a consultant for mandated costs claims. Your auditor disallowed a legitimate, actual mandated costs claimed merely because the District used a consultant prepared worksheet. Again, I urge you to reexamine this finding.

SCO's Comment

Based on the district's response to the draft report finding, we elaborated on the specific issues within the finding. The dollar finding and recommendation remain unchanged. We provided the district with detailed schedules identifying the specific adjustments on September 22, 2005, and on June 7, 2006, and discussed the adjustments with Toan Nguyen throughout the audit.

We determined costs to be unsupported when they were not traceable to source documents. We did not determine the costs to be unallowable because there were no agendas nor because the district claimed costs based on a consultant-prepared worksheet. Furthermore, the time spent by the 29 principals was not supported by original source documentation.

**FINDING 2—
Unsupported material
and supplies**

The district did not provide documentation to support claimed materials and supplies totaling \$12,885 for the period of July 1, 2001, through June 30, 2003, as follows.

- The district claimed \$1,783 with no supporting documentation.
- The district claimed \$11,102 in costs that were not directly related to collective bargaining activities (e.g., costs of printing graphics and photocopying advertisements for classified and certificated vacancies).

The following table shows the unallowable materials and supplies, and related indirect costs.

	Fiscal Year		
	2001-02	2002-03	Total
Materials and supplies:			
Unsupported costs	\$ (1,783)	\$ —	\$ (1,783)
Ineligible costs	(11,077)	(25)	(11,102)
Subtotal materials and supplies	(12,860)	(25)	(12,885)
Related indirect costs	(1,127)	(2)	(1,129)
Audit adjustment	<u>\$ (13,987)</u>	<u>\$ (27)</u>	<u>\$ (14,014)</u>

Parameters and Guidelines, Section H, states that the claimant must support the level of costs claimed and that the claimant will only be reimbursed for the "increased costs" incurred.

Recommendation

We recommend that the district ensure that all claimed costs are for activities reimbursable under the mandate and supported by source documents prepared contemporaneously. Source documents should identify the mandated functions performed and support the actual number of hours devoted to each function.

District's Response

I concur with this finding.

SCO's Comment

The finding and recommendation remain unchanged.

**FINDING 3—
Unsupported contract
services**

The district overclaimed \$26,966 in attorney's fees related to general personnel issues that are not reimbursable under the mandate for the audit period. The contract services were for legal fees claimed to prepare retirement agreements; research the Head Start program; and to review the district's sexual harassment policy, drug testing policy, disciplinary policies, and employer-initiated disciplinary actions. These legal fees were not related to collective bargaining agreements.

The following table shows the unallowable contract services costs.

	Fiscal Year			Total
	2001-02	2002-03	2003-04	
Contract services:				
Components G1 through G3	\$ —	\$ (101)	\$ —	\$ (101)
Components G4 through G7	<u>(12,015)</u>	<u>(6,446)</u>	<u>(8,404)</u>	<u>(26,865)</u>
Audit adjustment	<u>\$ (12,015)</u>	<u>\$ (6,547)</u>	<u>\$ (8,404)</u>	<u>\$ (26,966)</u>

Parameters and Guidelines, Section H, states that the claimant must support the level of costs claimed and that the claimant will only be reimbursed for the "increased costs" incurred.

Parameters and Guidelines, Section H(5), requires that the district separately show the names of professionals or consultants, and specify the functions performed by the consultants relative to the mandate, length of appointment, and the itemized cost for such services. Invoices must be submitted as supporting documentation with the claim.

Recommendation

We recommend that the district ensure that all claimed costs are for activities reimbursable under the mandate.

District's Response

The State's draft audit report disallowed \$26,966 in attorney's fees since it dealt with general personnel issues that are not reimbursable. The attorney's fees covered contractual personnel issues such as grievances and disciplinary actions. These activities fall under contract administration.

SCO's Comment

Based on the district's response to the draft report finding, we elaborated on the specific issue within the finding. The dollar finding and recommendation remain unchanged. The attorney fees were not incurred for reimbursable activities.

OTHER ISSUEDistrict's Response

In responding to the draft audit report, the district stated the following.

In summary, while I understand the legal obligations and rights of the State Controller Office to conduct mandated cost audits, I believe that this type of "punitive" audit approach is unprofessional. The State is legally required to reimburse local agencies for costs relating to mandated activities. For school districts, the funding is provided by Proposition 98. The State Controller's Office is engaging in unreasonable audit practices. I anticipate you will correct these errors in your final report.

SCO's Comment

We agree that the State is legally required to reimburse local agencies for costs related to mandated activities and that the funding is provided by Proposition 98 funds. However, the district, not the State Controller's Office, is responsible for supporting actual costs related to activities reimbursable under the mandate. We are not engaging in unreasonable, punitive, or unprofessional audit practices. The district claimed costs that were not reimbursable under the mandate or that were unsupported.

We performed the mandate audits in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The performance audit fieldwork standards require us to obtain sufficient, competent, and relevant evidence to afford a reasonable basis for the auditors' findings and conclusions. Our findings and conclusions were based on these standards.

**Attachment—
District's Response to
Draft Audit Report**



ABC Unified School District

16700 Norwalk Boulevard, Cerritos, CA 90703 (562) 926-5566

BOARD OF EDUCATION

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Dr. Gary Smuts

June 5, 2007

Mr. Jim L. Spano
Chief, Compliance Audits Bureau, Division of Audits
State Controller Office
Post Office Box 942850
Sacramento, CA 94250-5874

SUBJECT: Audit of ABC Unified School District Collective Bargaining Program for the period of July 1, 2001 through June 30, 2004.

Dear Mr. Spano:

This letter is in response to the draft audit report of the ABC Unified School District Collective Bargaining Program for the period of July 1, 2001 through June 30, 2004. I strongly feel that the determination of unallowable costs is without merit, and the audit standards and procedures used throughout the audit process are inconsistent and flawed. It became obvious in the audit process that the sole purpose of the State's audit was to find ways to disallow costs by using standards that were unreasonable and inconsistent.

As indicated in your draft report, the District claimed \$420,205 for the mandated program. The audit determined that \$203,450 is allowable and \$216,755 is unallowable. The unallowable rate is 52 percent. While this is far better than the statewide average unallowable rate of 80 plus percent, I found that most of the unallowable costs were, in fact, legitimate and actual costs connected to the Collective Bargaining Program. Below is a detailed explanation of the various findings that should assist you in reviewing and modifying the State's final audit report to reflect the true and actual costs of the audit program.

FINDING 1 – Unsupported salaries and benefits

The audit disallowed \$176,774 under this finding due to the fact that the District did not provide documentation to substantiate a significant portion of the claimed salaries and benefits and the related indirect costs, as outlined below:

G3 – Cost of Negotiations (\$34,650 disallowed)

a. The State's draft audit report indicated that \$25,755 of the unallowable cost is related to claimed costs that were not supported by time records. However, I have provided the auditor with time records for everyone that was claimed under this mandate. Therefore, I am requesting the State to provide the names of the employees and the fiscal year(s) that costs were claimed without time records.

b. The State's draft audit report disallowed \$3,443 related to overtime costs claimed for employees who did not earn overtime pay. While the District does not pay overtime for certain employee classifications, namely management, it often allows compensatory time in lieu of overtime. Therefore, it is still a cost of carrying out the mandated activities, and thus, is legally reimbursable. I am requesting that the State provides me with the parameters and guidelines that disallowed this claim.

G5 – Collective Bargaining Agreement Disclosure (\$7,267 disallowed)

The State's draft audit report indicated that \$7,267 of the unallowable cost was not supported by time records. Again, I have provided the auditor with time records for everyone that was claimed under this mandate. Therefore, I request that the State provides me with the names of the employees and the fiscal year(s) that costs were claimed without time records.

G6 – Contract Administration (\$110,140 disallowed)

The State's draft audit report indicated that \$48,878 of costs were unsupported because the District used a preprinted time log. These preprinted time logs were used from the original documents provided by the District's 29 principals. These preprinted time logs contain original signatures from the principals, certifying under perjury, that they indeed spent the time under the claimed activities. I strongly urge you to reexamine this finding with your auditor. This is an unreasonable application of the audit standards. The parameters and guidelines do not indicate that preprinted time logs are not allowed.

The State's draft audit report disallowed \$30,254 relating to the fact that the time logs did not contain specific reimbursable activities performed. However, the reimbursable activities were noted on a separate worksheet. The parameters and guidelines do not indicate that the reimbursable activities must be on the same page as the time log. The field auditor acknowledged that the principals did perform the mandated activities, however, the costs were disallowed due to the improper interpretation of the parameters and guidelines.

The State's draft audit report disallowed \$31,008 on supported training hours. The District provides training on the Collective Bargaining Contract and all certificated management are required to attend. However, the costs were disallowed to the fact that there was not agenda. The report further claimed that the time costs claimed were based on unsupported average/standard time. However, the District followed the same standards in calculating the productive hourly rate.

G7 – Unfair Labor Practice Charges (\$10,211 disallowed)

The draft audit report disallowed \$10,724 for unfair labor practice charges due to the fact that the claims were filed using the consultant prepared worksheet. Again, the parameters and guidelines do not indicate that the District cannot use a consultant prepared worksheets. Most districts in the State utilize a consultant for mandated costs claims. Your auditor disallowed a legitimate, actual mandated costs claimed merely because the District used a consultant prepared worksheet. Again, I urge you to reexamine this finding.

FINDING 2 – Unsupported materials and supplies

I concur with this finding.

FINDING 3 – Unsupported contact services

The State's draft audit report disallowed \$26,966 in attorney's fees since it dealt with general personnel issues that are not reimbursable. The attorney's fees covered contractual personnel issues such as grievances and disciplinary actions. These activities fall under contract administration.

In summary, while I understand the legal obligations and rights of the State Controller Office to conduct mandated cost audits, I believe that this type of "punitive" audit approach is unprofessional. The State is legally required to reimburse local agencies for costs relating to mandated activities. For school districts, the funding is provided by Proposition 98. The State Controller's Office is engaging in unreasonable audit practices. I anticipate you will correct these errors in your final report.

Sincerely,



Toan Nguyen
Chief Financial Officer

Cc: Dr. Gary Smuts, Superintendent

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